

**DESCRIPTION OF PROPOSED REGULATIONS**  
**MINIMUM INTERNAL CONTROL STANDARDS (MICS) FOR GAMBLING**  
**ESTABLISHMENTS**  
**GAMBLING FLOOR OPERATIONS AND HOUSE RULES**

**Introduction:**

In general, this proposed action has been drafted in an attempt to establish uniform procedures and standards to assist the California Gambling Control Commission (Commission) and the Bureau of Gambling Control (Bureau) in meeting their oversight responsibilities under the Gambling Control Act (Act)<sup>1</sup>, while taking into account variations in the size of gaming operations. More importantly, the proposed action is intended to provide for minimum standards that protect public health, safety and general welfare.<sup>2</sup> These regulations establish a baseline for Gambling Establishment (cardroom) operation, by requiring that licensees establish and implement written policies and procedures that meet or exceed the prescribed Minimum Internal Control Standards (MICS), as they relate to the established size category of the individual licensee. Establishing baseline standards helps to ensure consistency and uniformity.

**Background:**

The Commission's involvement in the development of MICS for cardrooms began in June 2004. A joint Commission-Bureau-Industry workshop was conducted to review preliminary draft proposals for regulations in September 2004. After consideration of the information and comments received through that workshop, the proposed MICS requirements or categories were deliberated. The conclusion was to have smaller rulemaking packages with topic-related MICS instead of one large rulemaking with many MICS included. Regulations for Gaming Activity and Additional Tables finished the rulemaking process in 2006, with the latter being adopted and approved. Subsequently, other issues arose which required the Commission to re-evaluate their regulation development priorities and work on the MICS regulations was suspended temporarily.

In September 2007, a joint Commission/Bureau MICS Regulations Workgroup was formed to continue the development of regulations to establish MICS for cardrooms. The workgroup has discussed general MICS requirements and researched MICS requirements from other states. Due to the number of subjects and complexity of the MICS requirements, the workgroup segregated the requirements into separate subject areas in order to pursue regulations in phases, according to priority. Those phases and subjects are:

- Phase I: General Terms, Conditions & Definitions; Policies & Procedures; Drop & Drop Collection; Count & Count Room Functions; and Cage Functions
- Phase II: Emergency Preparedness, Security & Surveillance
- Phase III: Gambling Floor Operations & House Rules
- Phase IV: Chips, Cards, Tiles & Other Gambling Equipment

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<sup>1</sup> Business and Professions Code, Division 8, Chapter 5, section 19800 et seq

<sup>2</sup> Business and Professions Code, section 19920

Phase V: Personnel & Tips

Phase VI: Information Technology Systems

Phase VII: Adequate Financing; Player-Dealer Banks, & Jackpots

Multiple phases are being considered simultaneously and are currently in various stages of development. Phase I and II MICS regulations have both been approved by the Office of Administrative Law (OAL). Phase I MICS regulations became effective on September 24, 2009, while Phase II MICS became effective on May 6, 2010. It is intended that each phase will be taken up, formally, in the order listed above.

Business and Professions Code section 19840 requires that the Commission and the Bureau consider the operational differences of large and small cardrooms when establishing regulations. As a result, California Code of Regulations Section 12380(d) already establishes five tiers that represent the relative size of cardrooms, based upon their number of approved gambling tables. The smallest cardrooms are identified as Tier I, while the largest ones are in Tier V. The breakdown by the number of tables is as follows:

Tier I: 1- 5 tables

Tier II: 6- 10 tables

Tier III: 11- 30 tables

Tier IV: 31- 60 tables

Tier V: 61 or more tables

Throughout the development of these proposed Phase III MICS regulations (*Gambling Floor Operations and House Rules*), Commission staff has worked directly with Bureau staff in an effort to accommodate their regulatory needs. In addition, commission staff has conducted three public workshops and one written public comment period to solicit recommendations from the Bureau, the cardroom industry and other interested parties. The first workshop was held on January 21, 2010, the second on June 30, 2010, and the third on March 29, 2011. The written public comment period was conducted from November 18 through December 17, 2010. All comments and recommendations were recorded, categorized and considered in the further development and refinement of these regulations. The resulting proposed language represents approximately 1½ years of negotiations between the Bureau and the cardroom industry. Every effort has been taken to accommodate their needs without compromising our regulatory purpose.

**Proposed Action:**

This proposed action will make changes within Articles 1 and 3, Chapter 7, Division 18, Title 4 of the California Code of Regulations. The proposed changes are as follows:

**Section 12360. Chapter Definitions.**

Within Article 1, Section 12360 provides definitions for the words that govern the construction of Chapter 7. This section currently incorporates the definitions in Business and Professions Code section 19805 and includes specific definitions for the words “licensee”, “security department” and “surveillance unit.”

This proposed action would amend Section 12360 by incorporating the definitions in Section 12002. The definitions in Section 12002 are applicable to all of Division 18. Since many of the terms that are defined in Section 12002 are used throughout Chapter 7, it is appropriate to incorporate them by reference.

This action would add a definition for the term “gaming activity.” This term is used in the text of proposed Sections 12391 and 12392. Proposed Section 12360(a) would define a “gaming activity” to mean the same as is currently stated in Title 11, Section 2010(f), which defines “gaming activity” to mean any activity or event including, but not limited to, jackpots, bonuses, promotions, cashpots or tournaments that are appended to, or rely upon, any controlled game. In the construction of these proposed regulations, it is important that a *gaming activity* not be confused with a *controlled game*. Pursuant to Section 12002(c) and Business and Professions Code section 19805(g), a controlled game means the actual play of Poker, Pai Gow or California Games. Gaming activities are generally promotional in nature, while controlled games represent the actual play of the games being promoted.

This action would also add a definition for the term “house rules.” Proposed Section 12360(b) would define “house rules” as those which set general parameters under which a gambling enterprise operates the play of controlled games. Section 12392, which is also proposed by this action, would establish minimum standards for house rules. It is important to differentiate between “house rules” and “game rules.” In the Act, “game rules” refers to those published rules for *each specific game*.<sup>3</sup> In contrast, this action would set general standards (house rules) for player conduct and etiquette that may *apply to any game*.

As a result of the additional definitions proposed by this action, pre-existing subsections within Section 12360 would be renumbered accordingly to conform to this action.

These proposed regulations would also update the statutory reference for the definition of a “licensee.” Section 12360(c) incorrectly refers to subdivision (ac) of Business and Professions Code section 19805. Recent legislation moved this definition to subdivision (ad).

Additional non-substantive changes would also be made to Section 12360 by deleting unnecessary comas in subsections (d) and (e).

#### Section 12391. Gambling Floor Operation.

This proposed action would establish new Section 12391 within Article 3, Chapter 7, Division 18, Title 4 of the California Code of Regulations. Section 12391 would require cardrooms to adopt specified minimum policies and procedures that relate to the operation of the gambling floor.

1. Section 12391(a)(1) would require cardrooms to have a policy stating that their gambling floor must be *open to the public*. This proposed regulation is consistent with Business and Professions Code Section 19841(p) which requires the Commission to adopt regulations that define and limit the area, games, hours of operation, number of tables, wagering limits,

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<sup>3</sup> Business and Professions Code, sections 19826, subdivision(g) and 19841, subdivision (b)

equipment and the method of gambling operations when local regulations are insufficient to protect the health, safety or welfare of residents near cardrooms. Requiring that all cardrooms be *open to the public* creates a consistent statewide standard, regardless of local requirements. This proposed regulation is also in compliance with Business and Professions Code section 19801(j) which states in part:

*“To ensure that gambling is conducted honestly, competitively, and free of criminal and corruptive elements, all licensed gambling establishments in this state must remain open to the general public ...”*

This proposed regulation also provides for exceptions to this *open-to-the-public* rule should the provisions of Business and Professions Code section 19861 apply to any cardroom in the state. This exception permits the licensing of small (Tier I) *private* cardrooms, provided that they are located in an area that has a local ordinance allowing only private cardrooms and provided that they existed on or before December 31, 1997. There is only one cardroom in the state that meets these criteria.

This proposed regulation would allow for additional exceptions when any of the following Business and Professions Code sections apply:

- Section 19844 (Exclusion or Ejection of Individuals from Gaming Establishment)
  - Section 19845 (Removal of Persons from Licensed Premises; Reasons)
  - Section 19921 (Persons Under 21; Areas of Access)
2. Section 12391(a)(2) would require a cardroom to have policies and procedures that place conditions on the use of “house prop players” and “public relations players.” When playing controlled games, house prop players and public relations players would be required to:
- A. Hold a valid work permit or key employee license, and wear their work permit or key employee badge;
  - B. Comply with all house and game rules applicable to the game being played;
  - C. Comply with all laws and regulations applicable to the play of controlled games;
  - D. Not accept the deal when playing a California Game;
  - E. Not use house funds to wager bets;
  - F. Not be the house dealer for the game being played; and
  - G. Leave the table when a waiting list exists for the game being played.

The use of house prop players in the play of controlled games increases the risks of dishonest play, the house having a financial interest in the outcome of a game, and the public’s perception that games may not be played fairly. This proposed regulation will help to ensure that controlled games are played fairly and will reduce the risk that the house has a financial interest in the game by placing conditions under which house prop players can play controlled games.

The Commission and the Bureau have the duty and obligation to establish policy regarding

the operations of a gambling enterprise.<sup>4</sup> The Act and the Penal Code clearly prohibit house-banked games in cardrooms.<sup>5</sup> The Act instructs the Commission to adopt regulations that help to ensure that gambling activities are fair to the public<sup>6</sup> and invokes penalties against licensees that engage in dishonest or unfair gambling activities.<sup>7</sup> Further, the Act assigns the Bureau with the responsibility to place restrictions and limitations on how controlled games are played.<sup>8</sup>

3. 12391(a)(3) would require owners and employees of cardrooms to comply with house and game rules and the applicable laws and regulations when playing controlled games on the premises of their own cardroom.

This proposed regulation will help to ensure that controlled games are played fairly and honestly. The Act instructs the Commission to adopt regulations that help to ensure that gambling activities are fair to the public<sup>9</sup> and invokes penalties against licensees that engage in dishonest or unfair gambling activities.<sup>10</sup>

4. Section 12391(a)(4) would prohibit a licensee from *requiring* that their employees play controlled games on the premises of the cardroom where they are employed. This paragraph would not apply to house prop players and public relations players because playing controlled games is part of their work duties.

To insure that the house is not providing funds to employees with which to play controlled games, house prop players and public relations players are required to utilize their own money and discretion when placing wagers in the play of controlled games (See proposed section 12391(a)(2)(E)). This is typically a condition of employment for house prop players and public relations players, who must absorb their losses. As a result, other employees, with other duties, should not be forced to play controlled games, since they would also be forced to incur any losses. This proposed regulation would prevent cardrooms from arbitrarily requiring their employees to play controlled games.

The Act and the Penal Code clearly prohibit house-banked games in cardrooms.<sup>11</sup> Further, the California Labor Code requires employers to reimburse their employees for any expenditures or losses incurred in the discharge of their duties as an employee.<sup>12</sup> The result is that a cardroom cannot require their employees to gamble because they cannot reimburse them for their losses.

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<sup>4</sup> Business and Professions Code, sections 19801, subdivisions (g), (h) and (i) , 19803, subdivision (a), 19811, subdivision (b), 19824, 19826, subdivisions (f) and (g), 19840 and 19841, subdivisions (b), (o) and (p)

<sup>5</sup> Business and Professions Code, sections 19801, subdivision (a) and 19805, subdivision (c); Penal Code, sections 330 and 330.11

<sup>6</sup> Business and Professions Code, sections 19801, subdivisions (g) and (h), and 19841, subdivisions (b) and (o)

<sup>7</sup> Business and Professions Code, section 19914, subdivision (a), paragraph (2)

<sup>8</sup> Business and Professions Code, section 19826, subdivision (g)

<sup>9</sup> Business and Professions Code, sections 19801, subdivisions (g) and (h), and 19841, subdivisions (b) and (o)

<sup>10</sup> Business and Professions Code, section 19914, subdivision (a), paragraph (2)

<sup>11</sup> Business and Professions Code, sections 19801, subdivision (a) and 19805, subdivision (c); Penal Code, sections 330 and 330.11

<sup>12</sup> Labor Code, section 2802, subdivision (a)

5. Section 12391(a)(5) would require a licensee to maintain specified information relating to gaming table operation. The following information must be maintained, by shift and by date:
  - (A) The tables that were open,
  - (B) The games that were played and the collection rates,
  - (C) The total time that each table was in use, and
  - (D) The names of the house dealers that were assigned to work the tables.

Section 12391(a)(6) would require that the information in paragraph (5) be made available to the Bureau within two hours of their request, when the request is made during normal business hours. If the request is made after normal business hours, the cardroom would have until two hours after the start of the next business day to provide the information.

The information required by Section 12391(a)(5) will help to encourage compliance with cardroom revenue reporting and drop collection requirements.<sup>13</sup> Business and Professions Code section 19841(h) mandates that the Commission's regulations prescribe minimum procedures for licensees to exercise effective control over their fiscal and gambling affairs, and section 19841(k) mandates that the Commission's regulations specify forms for reporting the results of gambling operations. Section 12391(a)(6) will assist Bureau staff in verifying compliance with the laws and regulations that require controlled games to be pre-approved by the Bureau.<sup>14</sup> Further, the Act authorizes the Bureau to monitor gambling operations, conduct investigations and inspect records.<sup>15</sup> Determining which employees worked during specified shifts is well within the Bureau's responsibility to investigate possible violations of the Act.

6. Section 12391(a)(7) would prohibit a licensee from having on the gambling floor more gaming tables than that which is authorized by the license, unless all excess tables are covered or prominently labeled as non-operational and are under continuous video surveillance. The number of tables on the gambling floor of a cardroom is an important benchmark when considering the amount of controlled gambling that is permissible within the State of California.<sup>16</sup> While the number of permissible tables is primarily determined by local jurisdictions, it remains the Commission and Bureau's responsibilities to ensure that licenses are issued to, and maintained by, only those cardrooms that adhere to these limits.<sup>17</sup>
7. Section 12391(a)(8) would require that the purchase or redemption of chips be transacted only by designated cardroom employees who have received the training required by section 103.64 of Title 31 of the Code of Federal Regulations. This federal regulation requires cardrooms to train employees on the reporting requirements for cash transactions in excess of \$10,000 and other cash transactions that are considered unusual or suspicious. The policies

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<sup>13</sup> Business and Professions Code sections 19841, subdivision (h), and 19951, subdivisions (c) and (d); California Code of Regulations, Title 4, Sections 12357, subsection (b), 12384 and 12401

<sup>14</sup> Business and Professions Code section 19826, subdivision (g); California Code of Regulations, Title 11, Sections 2038 and 2070, subsection (b)

<sup>15</sup> Business and Professions Code, section 19826, subdivisions (b), (c) and (d), and section 19827, subdivision (a)

<sup>16</sup> Business and Professions Code sections 19801, subdivision (l), 19862, subdivision (b), and 19961, subdivision (b)

<sup>17</sup> Business and Professions Code sections 19801, subdivision (l), 19826, subdivision (c), 19841, subdivision (p), 19860, subdivision (a), paragraph (5), and 19960, subdivision (c), paragraph (2), subparagraph (E)

and procedures put in place regarding this regulation must also ensure compliance with Section 12404 in Article 4, which regulates these types of transactions.

This proposed regulation will help to ensure compliance with federal and state laws and regulations that relate to the reporting of large cash transactions.<sup>18</sup> The Financial Crimes Enforcement Network (FinCEN), of the United States Department of the Treasury, is a government-wide multisource financial intelligence and analysis network tasked with the administration of the Bank Secrecy Act. Based on revenues deposited into individual cardroom bank accounts, FinCEN estimates that 85-90% of Cash Transaction Reports (CTRs) and Suspicious Activity Reports (SARs) required of the California cardroom industry under the Bank Secrecy Act and the USA Patriot Act were not being reported. Citing concerns about a widespread opportunity to launder large amounts of cash through the California cardroom industry, compliance with financial reporting requirements is essential to combating crime. This proposed regulation is consistent with Business and Professions Code section 19841(d) which mandates that the Commission's regulations require licensees to report and keep records of these large cash transactions. It is important that this process be included in a cardroom's policies and procedures, as it would help employees to understand their role in documenting and reporting these transactions.

8. Section 12391(a)(9) would prohibit a licensee from providing house funds to any person for the purposes of playing a controlled game, except when extending credit, pursuant to Section 12388, and when providing payment to a third-party provider of proposition player services, in accordance with a Bureau-approved contract, pursuant to Section 12200.9.

When a cardroom owner provides money to employees to play California Games, the house may be taking advantage of the percentage odds in favor of the player-dealer and thus the house may have an interest in the outcome of the game. This may turn the games into house banking and percentage games. Further, a cardroom employee playing *any* controlled game with house funds may also increase the chances of an unfavorable decision against a patron who may have a game dispute with that employee. When making a decision about a game dispute, how could a house dealer or key employee be impartial when house funds may be at stake?

The Bureau has found that there is a high perception from patrons that some cardrooms are funding employees to play controlled games in an effort to win the pots. The Bureau recently worked a case where an on-duty chip runner was playing at the table with funds from the chip tray, and repeatedly went back to the cage for more chips; providing, what appears to be, access to house funds with which to play. The Act requires the Commission to adopt regulations to help ensure that gambling activities are fair to the public.<sup>19</sup>

For further information on this subject, please refer to the reasons for Section 12391(a)(2).

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<sup>18</sup> United States Code, Title 31, sections 5313 and 5314; Code of Federal Regulations, Title 31, Sections 103.21, 103.22, 103.23, 103.63 and 103.64; Penal Code section 14162, subdivision (b); California Code of Regulations, Title 4, Section 12404

<sup>19</sup> Business and Professions Code sections 19801, subdivisions (g) & (h), and 19841, subdivisions (b) & (o)

9. Section 12391(b) would require Tier III through V cardrooms to have at least one owner-licensee or key employee on duty during all hours of operation to supervise gambling operations and insure compliance with the Act and its regulations.

Section 2050, Title 11 of the California Code of Regulations already requires all cardrooms to have at least one owner-licensee or key employee on duty at all times, and provides an exception for smaller cardrooms to have this person available by phone rather than be present at the cardroom. This proposed regulation would require larger cardrooms (Tiers III-V) to have a licensee or key employee on duty specifically to *supervise* gambling operations on the gambling floor. These larger cardrooms can rival the size of a Las Vegas Casino, with 240 or more tables operating on the gambling floor. Direct supervision and oversight of these complex operations is critical in providing a secure environment for patrons and in ensuring that games are played honestly and fairly.<sup>20</sup>

Since no more than 10 tables are allowed at Tier II cardrooms, this proposed regulation would only apply to Tier III and above. When developing regulations, Business and Professions Code section 19840 requires the Commission to take into consideration the operational differences of large and small cardrooms.

Business and Professions Code sections 19827(a) and (b) authorize the Bureau to demand access to controlled areas and records of a cardroom for the purposes of determining compliance with the Act or its regulations. An owner or key employee is often the only person at the cardroom who has access to these controlled areas or records. Business and Professions Code, section 19841(h) mandates that the Commission's regulations prescribe minimum procedures for licensees to exercise effective control over their gambling affairs.

10. Section 12391(c) would require cardrooms to implement the provisions of Section 12391 no later than six months following the effective date of the regulation. This will provide licensees with adequate notice and sufficient time to develop appropriate policies and procedures in compliance with these newly adopted standards and requirements.

#### Section 12392. House Rules.

This proposed action would also establish new Section 12392 within Article 3, Chapter 7, Division 18, Title 4 of the California Code of Regulations. Section 12392 would require cardrooms of all tiers to adopt specified minimum policies and procedures regarding house rules.

1. Section 12392(a) would require cardrooms to adopt and implement house rules, written in English, which promote the fair and honest play of controlled games and gaming activity. This section would also require that the house rules:
  - (1) Allow for the play of only those games that are permitted by local ordinances and state and federal laws and regulations;
  - (2) Address player conduct, etiquette and other general rules so as to promote the orderly conduct of controlled games and gaming activities;

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<sup>20</sup> Business and Professions Code sections 19801, subdivision (g), 19823, 19826, 19841, subdivision (b), 19920, 19924 and 19971



- (3) Include provisions that discourage players from, during the play of a hand, speaking in a language, or using any other form of communication, that is not understood by all persons at the table;
  - (4) Not conflict with Bureau-approved *game rules*; and
  - (5) Address the following situations as they may apply during the play of a controlled game or gaming activity:
    - (A) Customer conduct,
    - (B) Table policies,
    - (C) Betting and Raising,
    - (D) “Misdeals,”
    - (E) Irregularities,
    - (F) “The Buy-In,”
    - (G) “Tied Hands,”
    - (H) “The Showdown,”
    - (I) “House Way,”
    - (J) Player Seating and Seat Holding, and
    - (K) Patron Disputes.
2. Section 12392(b) would require that house rules be readily available and provided to patrons and the Bureau upon request.

By requiring that every cardroom have house rules, Sections 12392(a) & (b) will help to ensure that controlled games and gaming activities are conducted honestly and fairly and that cardroom activity does not endanger the health, safety or welfare of the public.<sup>21</sup> House rules help to keep one player from having an unfair advantage over another, and help to prevent cheating. For example, two players communicating in a way that is not understood by other players at the table could give those two players an unfair advantage over the others. By learning the identity of each other’s cards, the two players would have an unfair advantage at predicting the identity of the cards in the hands of the other players. To ensure fairness to cardroom patrons, Business and Professions Code section 19841(b) mandates that the Commission’s regulations provide for the approval of game rules by the Bureau. Section 19841(h) mandates that the Commission’s regulations prescribe minimum procedures for licensees to exercise effective control over their gambling affairs; and section 19841(p) mandates that the Commission’s regulations define and limit the games and the method of gambling operations when the Commission and the Bureau determine that local regulations are insufficient to protect the health, safety or welfare of residents near cardrooms. Finally, it is important that house rules do not permit the operation of games that are prohibited by local ordinance. The Bureau has investigated a recent case where a local ordinance was changed to prohibit a specific game, but the cardroom continued operation of the game because the Bureau had approved it in the past.

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<sup>21</sup> Business and Professions Code section 19801, subdivision (g), 19823, 19826, 19841, subdivision (b), 19920, 19924 and 19971

3. Section 12392(c) would require cardrooms to implement the provisions of Section 12392 no later than six months following the effective date of the regulation. This will provide licensees with adequate notice and sufficient time to develop appropriate policies and procedures in compliance with these newly adopted standards and requirements.